GENERAL FUND REVENUE

FY 2016

FY 2016 General Fund Baseline revenues are projected to be $9.74 billion. As indicated in *Table 1*, the revised FY 2016 revenue estimate is $641.4 million higher than the estimate from the FY 2016 budget enacted March 2015.

Table 1

FY 2016 Revenue Forecast
($ in Millions)

Adopted FY 2016 Revenue Estimate	$9,099.0
Revised Revenue Forecast	$ 641.4
Revised FY 2016 Revenue Estimate	$9,740.4

The Baseline Revenue projection is $641.4 million above the original forecast primarily due to:

- A gain of $312 million in ongoing revenues under the updated January consensus forecast, as discussed below.
- An increase of $29 million in the estimate of one-time financing sources, primarily due to higher-than-projected collections from the September to October 2015 Tax Amnesty program.
- A $300 million increase in the balance forward from FY 2015. The original budget assumed an ending balance of $12 million for FY 2015 while the actual balance carried forward was $312 million.

Current year base revenue estimates are based on the consensus forecasting process (*see FY 2017 section below*). "Base Revenues" reflect the underlying growth in the economy and do not include one-time adjustments, urban revenue sharing or new tax law changes. *Table 2* shows the base revenue growth rates in FY 2016 through FY 2019 for the "Big 3" General Fund revenue sources (sales tax, individual, and corporate income tax) provided by each of the components comprising the 4-sector consensus forecast.

Based on the weighted average of the components of the 4-sector consensus forecast, "Big 3" General Fund revenue would grow by 3.6% in FY 2016. After adjusting for small revenue categories, the base revenue growth rate is 3.5%. After including tax law changes, one-time revenues, Urban Revenue Sharing, and the carry forward balance, overall revenues are projected to grow 1.7% in FY 2016.

The individual revenue detail for FY 2016 is found in *Table 6* at the end of this section.

FY 2017 and Beyond

The FY 2017 JLBC Baseline forecasted total net revenues of $10.0 billion represents 2.6% growth above FY 2016. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenue is projected at $10.16 billion. This amount reflects a base revenue increase of 4.0% compared to FY 2016. Base revenue growth is projected at 4.5% for sales, 3.8% for individual income and 2.4% for corporate income tax.

The FY 2017 Baseline also incorporates revenue planning estimates for FY 2018 and FY 2019, which are shown in *Table 7*. Under the consensus estimates, base revenue would increase by 4.6% in FY 2018 and FY 2019.

The Baseline estimated growth rates for the "Big 3" revenue categories of sales, individual income and corporate income taxes are initially developed and revised using a 4-sector consensus process. This process is based on averaging the results of the following 4 forecasts:

- Finance Advisory Committee panel forecast of January 2016. Consisting of 14 public and private sector economists, this independent panel meets 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund Baseline model. The model is a simultaneous-equation model consisting of more than 100 equations that are updated on a regular basis to reflect changes in the economy. The model uses more than 200 variables related to Arizona's economy and is updated quarterly.
- EBR's conservative forecast model, and
- JLBC Staff projections.

The growth rates from each sector of the forecast for FY 2016 through FY 2019 are detailed in *Table 2*.

Risks to the Revenue Forecast

While growth in state revenue always faces uncertainty, some of the large risks from prior years have eased. This outlook is reflected by the Federal Reserve Board's (the Fed) decision to begin raising short-term interest rates in December 2015, after holding rates near 0% during the prior 7 years to support the economic recovery. Recent

Table 2

4-Sector Estimates
Forecast Percentages (FY 2016 - FY 2019)
Base Revenue [1/]

	FY 2016					FY 2017				
	FAC	UA Low	UA Base	JLBC	Avg	FAC	UA Low	UA Base	JLBC	Avg
Sales Tax	4.1%	3.0%	4.0%	4.0%	3.8%	5.2%	2.6%	5.6%	4.6%	4.5%
Individual Income Tax	5.2%	1.9%	2.5%	4.6%	3.6%	5.4%	(0.1%)	4.6%	5.3%	3.8%
Corporate Income Tax	4.1%	(4.6%)	5.4%	5.4%	2.6%	5.5%	(2.8%)	1.9%	4.4%	2.4%
Overall [2/]	**4.4%**	**2.0%**	**3.4%**	**4.2%**	**3.5%**	**5.1%**	**1.3%**	**4.7%**	**4.7%**	**4.0%**

	FY 2018					FY 2019				
	FAC	UA Low	UA Base	JLBC	Avg	FAC	UA Low	UA Base	JLBC	Avg
Sales Tax	4.8%	4.7%	6.0%	4.5%	5.0%	4.3%	4.9%	6.0%	4.3%	4.9%
Individual Income Tax	5.2%	4.6%	5.5%	4.5%	5.0%	4.4%	5.2%	5.7%	4.5%	4.9%
Corporate Income Tax	4.8%	(5.5%)	(1.7%)	4.2%	0.8%	3.9%	(4.1%)	(5.5%)	4.0%	0.1%
Overall [2/]	**4.8%**	**4.0%**	**5.1%**	**4.3%**	**4.6%**	**4.2%**	**4.6%**	**5.2%**	**4.3%**	**4.6%**

1/ Prior to any tax law or other revenue changes.
2/ The growth rates for each sector represent the weighted average of Big-3 revenue estimates plus JLBC Staff estimates of other base revenue categories.

demographic data also reveals there has been a modest acceleration in household formation, potentially halting the previous trend of decelerating growth. Continued improvement in household growth may increase demand for housing and related construction activity, sectors of Arizona's economy that were hit especially hard in the recession. Passage of the Bipartisan Budget Act of 2015 has limited risk of future fiscal drag on the economy by suspending the federal debt ceiling until March 2017 and lifting annual spending caps through the end of federal fiscal year 2017.

Despite those improvements, the state revenue forecast faces the national and global risks below:

Unforeseen Natural Disasters and Geopolitical Events – An escalation of U.S. participation in the Middle East conflict is one example of an event that would affect the national economy during the forecast cycle.

International Economics – Although the U.S. is less dependent on international trade than most other developed economies, slower growth among our major trading partners could adversely affect the U.S. economy. China's economy has decelerated in recent years and may become further weighed down by the country's over-investment in industrial capacity. Economies of Japan and major Eurozone countries improved in 2015 but may still be vulnerable to any missteps in monetary or fiscal policy. Additionally, the Fed's expected hikes to U.S. interest rates (see below) could further strengthen the value of the dollar, which could reduce exports if U.S. goods become more expensive to the rest of the world.

Monetary Policy – In December 2015, the Fed began a series of expected increases to short-term interest rates, gradually phased in as the U.S. economy improves. There is a risk that if the timing and pace of such rate hikes are poorly executed, the current economic recovery could stall. Changes in inflation and economic performance often lag the Fed's changes to interest rates, making it difficult to gauge the immediate impact of its actions. If interest rates are increased too rapidly, and the economy is more vulnerable than originally thought, the high interest rates could drive the country into a recession. Conversely, if interest rates are raised too slowly, and inflation and economic performance begin to exceed Fed targets, the bank may abruptly increase rates, which could also stall the recovery.

Average Length of Expansion – Since 1945, the average length of a U.S. economic expansion has been approximately 5 years and the longest has been 10 years. The current expansion has lasted over 6 years and would reach 10 years if it continues through the end of the 4-sector forecast range of FY 2016 through FY 2019. Expansions usually end as a result of a specific economic or policy event, such as many of the items listed above. While there is no natural length of time for sustained periods of economic activity, if historical averages were to hold true, the U.S. economic expansion will end at some point within the forecast range.

Revenue Adjustments

Table 3 provides an overview of base revenue growth rates for FY 2016 and FY 2017 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in *Table 4*) and one-time financing sources.

Table 3

General Fund Revenue Baseline
For FY 2016 and FY 2017 Budget
($ in Millions)

	FY 2016	%	FY 2017	%
Base Revenue	$9,769.6 1/	2.5%	$10,158.4	4.0%
Prior Budget Legislation	N/A		(97.8)	
Urban Revenue Sharing	(605.6)		(663.7)	
One-Time Financing Sources:				
Balance Forward	312.3		499.3	
Fund Transfers	217.0		100.0	
Tax Amnesty	47.0		0.0	
Subtotal	576.3		599.3	
Adjusted Revenue	**$9,740.4**	**1.7%**	**$9,996.3**	**2.6%**

1/ The FY 2016 Base Revenue of $9.8 billion includes $(97.9) million in ongoing tax law and revenue changes. Adjusting for these changes, the FY 2016 base increase is 3.5%.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that affect the state's revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As shown in footnote 1 of *Table 3*, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by $(97.9) million in FY 2016. As noted above, the FY 2016 base revenue growth of 3.5% excludes these changes. The Baseline assumes a base revenue growth of 4.0% in FY 2017. Actual General Fund revenue, which includes the impact of prior budget legislation, urban revenue sharing and one-time financing sources, is estimated to increase by 1.7% in FY 2016 and 2.6% in FY 2017.

The following section provides a detailed description of prior year budget legislation that has an ongoing revenue impact in FY 2016 through FY 2019 (see *Table 4* for a complete list of each of the tax law and revenue changes affecting collections in FY 2016 through FY 2019).

As shown in *Table 4*, ongoing budget legislation enacted prior to the 2016 Regular Session is estimated to reduce General Fund revenue by $(97.9) million in FY 2016, followed by an additional reduction of $(97.8) million in FY 2017, $(90.4) million in FY 2018, and $(73.3) million in FY 2019. All revenue impacts in *Table 4* are stated relative to the prior year.

Each of the previously enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in *Table 5*.

1) Corporate School Tuition Tax Credit – Laws 2006, Chapter 14 established a tax credit for contributions by corporations and insurers to private school tuition organizations that provide scholarships and tuition grants to students of low-income families. Chapter 14 established a cap on this credit of $5 million per year. Laws 2006, Chapter 325 increased the credit cap to $10 million per year, and provided that the cap be increased by 20% annually, beginning in FY 2008. Credit donations were made up to the cap in each year between FY 2013 and FY 2016, and are currently projected to reach the cap of $61.9 million in FY 2017, $74.3 million in FY 2018, and $89.2 million in FY 2019. Thus, this credit program is estimated to reduce corporate income and insurance premium tax collections by $(8.6) million in FY 2016, followed by additional reductions of $(10.3) million in FY 2017, $(12.4) million in FY 2018, and $(14.9) million in FY 2019.

2) Phase-Down of Corporate Income Tax Rate – Laws 2011, 2nd Special Session, Chapter 1 reduces the corporate income tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. This rate reduction is currently

estimated to reduce corporate income tax collections by $(48.5) million in FY 2016, followed by additional reductions of $(47.4) million in FY 2017, $(47.4) million in FY 2018, and $(35.4) million in FY 2019.

3) Phase-In of Single Corporate Sales Factor – Laws 2011, 2nd Special Session, Chapter 1 increases the optional sales factor, which is used to calculate the apportionment of taxable income for multi-state corporations, from 80% to 100% over 4 years, beginning in TY 2014. This provision is currently estimated to reduce corporate income tax collections by $(32.5) million in FY 2016, followed by additional reductions of $(29.4) million in FY 2017, $(26.6) million in FY 2018, and $(16.5) million in FY 2019.

4) Job Tax Credit – Laws 2011, 2nd Special Session, Chapter 1 provides a $3,000 annual individual and corporate income tax credit for each net new qualifying job added by an employer in the state. To qualify for the 3-year credit, the new employment position must: (1) be full-time, (2) pay at least the county median wage, and (3) include health insurance paid by the employer. In addition, a business cannot claim the credit unless it meets certain minimum job creation and capital investment requirements. Laws 2012, Chapter 343 removed the 400 maximum job tax credit claims per employer established by Chapter 1. The job tax credit is estimated to reduce revenues by $(4.2) million in FY 2016, followed by an additional reduction of $(3.1) million in FY 2017.

5) Expansion of Angel Investment Credit – Laws 2011, 2nd Special Session, Chapter 1 provided certain changes to the State's Angel Investment Tax Credit program, beginning in FY 2012. Under this program, qualified "angel" investors are eligible to receive up to a 35% credit over 3 years on investments in small businesses certified by the Arizona Commerce Authority. The credit program is capped at $20 million. Chapter 1 extended the credit authorization by 4 years, through the end of FY 2016. Additionally, Chapter 1 also increased the asset cap of small businesses qualified to receive credit-eligible angel investments from $2 million to $10 million, beginning in FY 2012. According to information provided by the Arizona Commerce Authority, the $20 million credit cap was reached at the end of FY 2015. Relative to FY 2015, the expiration of the credit program is expected to generate a revenue gain of $4.5 million in FY 2016.

6) Reduction of Long Term Capital Gains – Laws 2012, Chapter 343 reduces the individual income taxation of long-term capital gains on assets acquired after TY 2011 by 25% over 3 years, beginning in TY 2013. This provision is estimated to reduce individual income tax collections by $(11.3) million in FY 2016, after which time it is fully phased in.

7) Qualified Facility Tax Credit – Laws 2012, Chapter 343 created a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state, beginning in TY 2013. The credit is 10% of the lesser of (1) the capital investment in the facility or (2) $200,000 for each net new employee hired at the facility. To qualify for the credit, a company is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facility. The credit is refundable but no single taxpayer can claim more than $30 million per calendar year. The credit must be taken in equal installments over 5 years. The qualified facility credit is subject to an annual aggregate cap of $70 million, which it shares with the renewable energy credit enacted in 2009. This provision is estimated to reduce revenue by $(4.0) million in FY 2016, followed by additional revenue reductions of $(4.0) million in FY 2017, $(4.0) million in FY 2018, and $(2.8) million in FY 2019.

8) Extension of Net Operating Loss Carry Forward – Laws 2012, Chapter 343 increases the net operating loss (NOL) carry-forward period for corporations from 5 years to 20 years, beginning in TY 2012. (A company incurs a net operating loss whenever its allowable deductions exceed its taxable income within the same taxable year.) Although the 20-year carry-forward provision became effective in TY 2012, it will not have a fiscal impact until TY 2018 (or FY 2019 for budgetary purposes). This is because any net operating loss incurred in TY 2012 would be carried forward initially for 5 years (from TY 2013 through TY 2017), which is the same period as allowed under prior law. Thus, it is only beginning in TY 2018 that the extended net operating loss carry forward will generate tax savings for businesses over and above the amounts that would have been provided under prior law. The provision is estimated to reduce corporate income tax collections by $(3.7) million in FY 2019.

9) Data Center TPT Exemption – Laws 2013, 1st Special Session, Chapter 9 provides, effective September 1, 2013, Transaction Privilege Tax (TPT) and Use Tax exemptions, for equipment purchased by owners, operators, or co-location tenants of computer data centers certified by the Arizona Commerce Authority. To qualify for the exemption, newly-constructed data centers located in Maricopa and Pima Counties must make a minimum investment of $50 million over 5 years. The corresponding minimum requirement in other counties is $25 million. Existing data centers, which made an investment of at

least $250 million during the 6 years immediately preceding the act's effective date, are eligible for the same exemption with respect to future equipment purchases. The exemption is estimated to reduce General Fund revenue by $(1.9) million in FY 2016.

10) Electricity and Natural Gas TPT Exemption for Manufacturers – Laws 2014, Chapter 7 exempts the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing or smelting operations from the state TPT and use tax. The exemption is estimated to reduce General Fund revenue collections by $(3.6) million in FY 2016.

11) Renewable Energy Facility Credit – Laws 2014, Chapter 8 created an individual and corporate income tax credit for businesses that invest at least $300 million in new renewable energy facilities in Arizona that generate energy for self-consumption. At least 90% of the energy produced at each renewable energy facility must be used for self-consumption and primarily for manufacturing operations. Chapter 8 imposed the following credit caps: (1) $1 million per facility per year, (2) $5 million per taxpayer per year, and (3) $10 million in the aggregate per year. The credit is estimated to reduce General Fund revenues by $(3.0) million in FY 2016, followed by an additional reduction of $(7.0) million in FY 2017.

Laws 2015, Chapter 6 expanded the credit program to include certified International Operations Centers (IOC). However, the credit requirements are different for an IOC than a manufacturer. To qualify for the credit, an IOC must make minimum capital investments of at least $100 million per year for 10 years, and use at least 51% of the energy produced for self-consumption by the fifth year of operation. While Chapter 6 increased the annual per facility credit cap from $1 million to $5 million, it left the $10 million statewide aggregate cap unchanged. For this reason, the expansion of the credit program under Chapter 6 does not have any additional fiscal impact.

12) Inflation Indexing of Income Tax Brackets – Laws 2014, Chapter 10 provided a one-time inflation adjustment of the individual income tax rate brackets for TY 2015, which was estimated to result in a one-time revenue loss of $(6.1) million in FY 2016. Laws 2015, Chapter 91 makes inflation indexing of the tax brackets permanent, beginning in TY 2016. As a result, the original estimate for FY 2016 has been revised from one-time to ongoing. While there would be an additional revenue loss as the brackets are inflated each year, these adjustments are being incorporated into the regular base revenue estimates.

13) Social Security Number (SSN) Requirement – Laws 2014, Chapter 68 requires individual taxpayers to provide the Department of Revenue a valid SSN to claim the Proposition 301 Sales Tax Credit, otherwise known as the Increased Excise Taxes Paid Credit (IETC). An individual income tax filer can claim a $25 credit to offset the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. For taxpayers filing as single or as married person filing separately, the income requirement for claiming the credit is $12,500 or less. Individual taxpayers had previously been able to also claim this credit using a federally-issued individual taxpayer identification number. The SSN requirement is effective January 1, 2015 and is projected to reduce the use of the credit, thereby increasing income tax collections by $1.5 million, beginning in FY 2016.

14) Electricity and Natural Gas TPT Exemption for International Operations Centers – Laws 2015, Chapter 6 exempts the gross proceeds from sales of electricity and natural gas to the owner or operator of a business certified by the Arizona Commerce Authority as an "International Operations Center." The exemption is estimated to reduce General Fund revenue collections by $(1.3) million, beginning in FY 2017.

15) Tax Fraud Prevention and Detection – Laws 2015, Chapter 8 (FY 2016 General Appropriation Act) appropriated $3.2 million to the Department of Revenue (DOR) to contract with a vendor to provide tax fraud prevention services designed to detect fraudulently filed individual income tax returns. This program is expected to bring in $9.3 million to the General Fund in FY 2016, followed by an additional $6.0 million beginning in FY 2017.

16) Ongoing Judiciary Transfers – The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) contained specific transfers to be made during FY 2016. The enacted FY 2016 budget's 3-year plan assumed the ongoing continuation of $6 million in fund transfers from various Superior Court and Supreme Court funds to the General Fund, beginning in FY 2016.

17) Insurance Fraud Assessment – Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) continues to suspend the statutory requirement that the Department of Insurance (DOI) set fees so that fee revenues are between 95% and 110% of the department's appropriation for FY 2016. This provision allows DOI to increase the fraud investigation assessment in order to offset a General Fund appropriation for insurance fraud investigators in the department's Fraud Unit. The provision is expected to increase General Fund revenue by $516,600 annually, beginning in FY 2016.

18) <u>Disproportionate Share Transfer Increase</u> – Laws 2015, Chapter 14 (FY 2016 Health Budget Reconciliation Bill) increases the maximum Disproportionate Share Hospital payment allocation for the Maricopa Integrated Health System in FY 2015 and FY 2016. The act provides that any resulting increase in the amount of Federal Funds that the public hospital draws down with the added allocation be deposited to the General Fund. This provision is currently expected to increase revenue by $5.5 million annually, beginning in FY 2016.

19) <u>Retaliatory Tax Exemption</u> – Laws 2015, Chapter 184 provides an exemption from Arizona's insurance premium retaliatory tax to out-of-state insurers doing business in Arizona, if the insurer's home state does not charge retaliatory taxes on Arizona insurers. Retaliatory taxes are owed by out-of-state insurers to the extent that the sum of insurance premium tax an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer's home state. The exemption is estimated to reduce revenue by $(1.5) million annually, beginning in FY 2016.

20) <u>Insurance Premium Tax Rate Reduction</u> – Laws 2015, Chapter 220 gradually reduces the insurance premium tax rate from 2.0% in calendar year (CY) 2015 to 1.7% in CY 2026 and subsequent years. The rate reduction applies to life, vehicle, and other property and casualty lines of insurance. The law is estimated to reduce insurance premium tax collections to the General Fund by $(1.3) million annually, beginning in FY 2017.

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net individual and corporate income tax collections from 2 years prior. As indicated in *Table 6*, total URS distributions will increase from $605.6 million in FY 2016 to $663.7 million in FY 2017. This URS increase results in a FY 2017 General Fund revenue loss of $(58.0) million relative to FY 2016. As shown in Table 7, URS distributions are estimated to increase to $676.2 million in FY 2018 and $682.2 million in FY 2019, which will result in net General Fund revenue losses of $(12.5) million and $(6.0) million in FY 2018 and FY 2019, respectively.

Table 4

Prior Year Budget Legislation with Ongoing Revenue Impact in FY 2016 through FY 2019
($ Millions) 1/2/

Prior Year Legislation / Description of Provision	FY 2016	FY 2017	FY 2018	FY 2019
Laws 2006, Ch. 14 & Ch. 325				
1) Corporate school tuition credit for low-income students	$(8.6)	$(10.3)	$(12.4)	$(14.9)
Laws 2011, 2nd SS, Ch. 1				
2) Phases down corporate tax rate from 6.968% to 4.9% over 4 years, beginning in FY 2015	(48.5)	(47.4)	(47.4)	(35.4)
3) Phases in corporate sales factor from 80% to 100% over 4 years, beginning in FY 2015	(32.5)	(29.4)	(26.6)	(16.5)
4) Creates annual $3,000 3-year new job tax credit with conditions 3/	(4.2)	(3.1)	0.0	0.0
5) Increases small business eligibility for 35% "angel" investment tax credit from $2 million to $10 million in assets through FY 2016	4.5	0.0	0.0	0.0
Laws 2012, Ch. 343				
6) Phases in (over 3 years) a 25% reduction of long term capital gains on assets purchased after 2011 4/	(11.3)	0.0	0.0	0.0
7) Creates an income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities 4/	(4.0)	(4.0)	(4.0)	(2.8)
8) Extends the Net Operating Loss (NOL) carry forward from 5 years to 20 years	0.0	0.0	0.0	(3.7)
Laws 2013, 1st SS, Ch. 9				
9) Exempts data center equipment from TPT 4/	(1.9)	0.0	0.0	0.0
Laws 2014, Ch. 7				
10) Exempts electricity and natural gas purchased by manufacturing and smelting facilities from TPT 5/	(3.6)	0.0	0.0	0.0
Laws 2014, Ch. 8				
11) Creates a tax credit for investment in new facilities that produce energy for self-consumption using renewable energy sources	(3.0)	(7.0)	0.0	0.0
Laws 2014, Ch. 10 & Laws 2015, Ch. 91				
12) Adjusts individual income tax rate brackets for inflation annually, beginning in TY 2015	(6.1)	0.0	0.0	0.0
Laws 2014, Ch. 68				
13) Requires individual taxpayers claiming the Proposition 301 low-income credit to provide a valid social security number	1.5	0.0	0.0	0.0
Laws 2015, Ch. 6				
14) Exempts electricity and natural gas purchased by International Operations Centers from TPT	0.0	(1.3)	0.0	0.0
Laws 2015, Ch. 8				
15) Fraud detection and prevention conducted by the Department of Revenue	9.3	6.0	0.0	0.0

Prior Year Legislation / Description of Provision (Cont'd)	FY 2016	FY 2017	FY 2018	FY 2019
Laws 2015, Ch. 8				
16) Assumes ongoing Judiciary fund transfers to General Fund	$6.0	$0.0	$0.0	$0.0
Laws 2015, Ch. 10				
17) Fraud assessment levied by the Department of Insurance	0.5	0.0	0.0	0.0
Laws 2015, Ch. 14				
18) Increases federal disproportionate share cap 5/	5.5	0.0	0.0	0.0
Laws 2015, Ch. 184				
19) Exempts retaliatory insurance premium taxes	(1.5)	0.0	0.0	0.0
Laws 2015, Ch. 220				
20) Phases down insurance premium tax rate from 2.0% to 1.7% over 11 years	0.0	(1.3)	0.0	0.0
Revenue Impact over Prior Year	**$(97.9)**	**$(97.8)**	**$(90.4)**	**$(73.3)**

1/ Represents marginal pricing: All revenue impacts are stated relative to the prior year.
2/ Some provisions have been revised since the enactment of the FY 2016 budget in March 2015.
3/ Includes impact of Laws 2012, Chapter 343 provision, which eliminated individual company cap of 400 eligible employees.
4/ Impact began in FY 2014.
5/ Impact began in FY 2015.

One-Time Financing

As shown in *Table 5*, one-time financing sources are included in the budget for FY 2016 and FY 2017. The following is a discussion of the one-time financing sources.

FY 2016

The $576.3 million in one-time financing sources for FY 2016 includes:

Tax Amnesty

Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) required the Department of Revenue to establish a tax amnesty program from September 1, 2015 through October 31, 2015. The program, which waived civil penalties and interest on unpaid tax liabilities for any period before January 1, 2014 for annual filers, and February 1, 2015 for all other filers, generated a total of $47.0 million in General Fund revenues in FY 2016.

Fund Transfers

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) provided for a total of $220.2 million in agency fund transfers to the General Fund in FY 2016. Due to a technical adjustment related to AHCCCS (monies that were supposed to be transferred in FY 2016 were instead transferred in FY 2015), this amount was subsequently reduced to $212.9 million. In addition, since the Baseline includes a recommended FY 2016 supplemental appropriation of $4.1 million from the General Fund to the Universities, the expected FY 2016 fund transfer amount is therefore $217.0 million.

Balance Forward

The FY 2015 General Fund ending balance carried forward into FY 2016 was $312.3 million.

FY 2017

The $599.3 million in one-time financing sources for FY 2017 includes:

Fund Transfers

The FY 2016 General Appropriation Act transfers $100.0 million from the Special Employee Health Insurance Trust Fund (HITF) to the General Fund in FY 2017 for the purpose of providing adequate support and maintenance for state agencies.

Balance Forward

The FY 2016 General Fund ending balance carried into FY 2017 is estimated to be $499.3 million.

FY 2018 & FY 2019

As shown in *Table 5*, no one-time financing sources are currently included for FY 2018 and FY 2019. The projected FY 2017 ending balance of $625.3 million is presumed to be allocated as part of the FY 2017 budget process.

Table 5

FY 2016 through FY 2019 One-Time Financing Sources
($ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Balance Forward	$ 312.3	$ 499.3	--	--
Budget Legislation				
Tax Amnesty	47.0	0.0	0.0	0.0
Fund Transfers	217.0	100.0	0.0	0.0
Total One-Time Financing	**$576.3**	**$599.3**	**$0.0**	**$0.0**

Table 6

GENERAL FUND REVENUE - FY 2015 - FY 2017

FORECAST REVENUE GROWTH

($ in Thousands)

	ACTUAL FY 2015	% CHANGE PRIOR YR	FORECAST FY 2016	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2017	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	4,192,293.8	4.7%	4,344,843.3	3.6%	152,549.5	4,540,556.3	4.5%	195,713.0
Income - Individual 1/	3,761,344.0	8.6%	3,893,164.4	3.5%	131,820.4	4,042,414.0	3.8%	149,249.6
- Corporate	663,003.0	15.3%	582,875.3	-12.1%	(80,127.7)	596,731.3	2.4%	13,856.0
Property	36,515.9	42.6%	40,167.5	10.0%	3,651.6	42,175.8	5.0%	2,008.4
Luxury - Tobacco	23,645.8	-8.5%	23,768.1	0.5%	122.3	23,345.6	-1.8%	(422.5)
- Liquor	33,101.2	0.6%	33,599.7	1.5%	498.6	34,106.6	1.5%	506.9
Insurance Premium	449,546.8	9.2%	463,867.2	3.2%	14,320.5	477,698.2	3.0%	13,831.0
Other Taxes (Includes MV Tax)	7,539.9	8.7%	7,916.9	5.0%	377.0	8,098.9	2.3%	182.1
Subtotal - Taxes	9,166,990.3	7.3%	9,390,202.4	2.4%	223,212.1	9,765,126.8	4.0%	374,924.4
Other Non-Tax Revenues:								
Lottery	66,096.3	-9.3%	65,615.3	-0.7%	(480.9)	73,137.3	11.5%	7,522.0
Licenses, Fees and Permits	31,106.0	4.2%	32,039.2	3.0%	933.2	33,000.4	3.0%	961.2
Interest	10,213.9	-26.1%	13,566.3	32.8%	3,352.4	13,566.3	0.0%	0.0
Sales and Services	38,192.3	1.0%	36,282.7	-5.0%	(1,909.6)	37,008.4	2.0%	725.7
Other Miscellaneous	77,908.4	2.7%	80,762.3	3.7%	2,853.9	83,185.2	3.0%	2,422.9
Transfers and Reimbursements	57,015.4	3.2%	57,313.9	0.5%	298.5	59,033.3	3.0%	1,719.4
Disproportionate Share Revenue	87,821.9	16.5%	93,866.3	6.9%	6,044.4	94,321.6	0.5%	455.3
Subtotal - Other Non-Tax	368,354.3	2.1%	379,446.0	3.0%	11,091.7	393,252.4	3.6%	13,806.4
Subtotal On-Going Revenue	**9,535,344.6**	**7.1%** 1/	**9,769,648.5**	**2.5%** 2/	**234,303.8**	**10,158,379.2**	**4.0%**	**388,730.8**
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(97,800.0)	N/A	(97,800.0)
Subtotal w/Tax Law Changes	**9,535,344.6**	**7.1%**	**9,769,648.5**	**2.5%**	**234,303.8**	**10,060,579.2**	**3.0%**	**290,930.8**
Urban Revenue Sharing (URS)	(608,935.7)	N/A	(605,634.3)	N/A	3,301.4	(663,652.1)	N/A	(58,017.8)
Subtotal w/Tax Law Changes/URS	**8,926,408.9**	**7.0%**	**9,164,014.2**	**2.7%**	**237,605.2**	**9,396,927.1**	**2.5%**	**232,913.0**
One-Time Financing Sources:		N/A						
Fund Transfers	78,123.5	-44.8%	217,017.7	177.8%	138,894.2	100,000.0	-53.9%	(117,017.7)
Tax Amnesty	0.0	N/A	47,048.5	N/A	47,048.5	0.0	-100.0%	(47,048.5)
Subtotal - One-Time Financing Sources	78,123.5	-44.8%	264,066.2	238.0%	185,942.7	100,000.0	-62.1%	(164,066.2)
Subtotal - Revenues	**9,004,532.4**	**6.1%**	**9,428,080.4**	**4.7%**	**423,547.9**	**9,496,927.1**	**0.7%**	**68,846.9**
Balance Forward	577,399.2	-35.5%	312,276.0	-45.9%	(265,123.2)	499,325.5	59.9%	187,049.5
Total - Resources	**9,581,931.6**	**2.1%**	**9,740,356.4**	**1.7%**	**158,424.7**	**9,996,252.6**	**2.6%**	**255,896.4**

1/ The 7.1% FY 2015 increase includes $(90.5) million in tax law changes. Adjusting for these changes, the base FY 2015 increase is 8.1%.

2/ The 2.5% FY 2016 increase includes $(97.9) million in tax law changes. Adjusting for these changes, the base FY 2016 increase is 3.5%.

Table 7

GENERAL FUND REVENUE - FY 2018 - FY 2019

FORECAST REVENUE GROWTH

($ in Thousands)

	FORECAST FY 2018	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2019	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	4,765,939.1	5.0%	225,382.8	4,998,734.2	4.9%	232,795.1
Income - Individual	4,249,181.4	5.1%	206,767.4	4,458,842.8	4.9%	209,661.3
- Corporate	503,737.4	-15.6%	(92,993.9)	418,803.2	-16.9%	(84,934.2)
Property	44,284.6	5.0%	2,108.8	46,498.9	5.0%	2,214.2
Luxury - Tobacco	22,933.3	-1.8%	(412.3)	22,528.2	-1.8%	(405.0)
- Liquor	34,622.0	1.5%	515.4	35,145.2	1.5%	523.2
Insurance Premium	483,213.2	1.2%	5,515.0	491,633.3	1.7%	8,420.1
Other Taxes (Includes MV Tax)	8,285.2	2.3%	186.3	8,285.2	0.0%	0.0
Subtotal - Taxes	10,112,196.2	3.6%	347,069.4	10,480,470.9	3.6%	368,274.7
Other Non-Tax Revenues:						
Lottery	82,619.0	13.0%	9,481.6	92,583.0	12.1%	9,964.1
Licenses, Fees and Permits	33,990.4	3.0%	990.0	35,010.1	3.0%	1,019.7
Interest	13,566.3	0.0%	0.0	13,566.3	0.0%	0.0
Sales and Services	37,748.6	2.0%	740.2	38,503.5	2.0%	755.0
Other Miscellaneous	85,680.7	3.0%	2,495.6	88,251.1	3.0%	2,570.4
Transfers and Reimbursements	60,804.3	3.0%	1,771.0	62,628.4	3.0%	1,824.1
Disproportionate Share Revenue	94,608.6	0.3%	287.0	94,727.4	0.1%	118.8
Subtotal - Other Non-Tax	409,017.8	4.0%	15,765.4	425,269.9	4.0%	16,252.1
Subtotal On-Going Revenue	**10,521,214.0**	**3.6%** 3/	**362,834.8**	**10,905,740.8**	**3.7%** 4/	**384,526.8**
Previously Enacted Tax Law Changes	(90,400.0)	N/A	7,400.0	(73,300.0)	N/A	17,100.0
Subtotal w/Tax Law Changes	**10,430,814.0**	**3.7%**	**370,234.8**	**10,832,440.8**	**3.9%**	**401,626.8**
Urban Revenue Sharing (URS)	(676,193.8)	N/A	(12,541.8)	(682,236.8)	N/A	(6,043.0)
Subtotal w/Tax Law Changes/URS	**9,754,620.2**	**3.8%**	**357,693.0**	**10,150,204.0**	**4.1%**	**395,583.9**
One-Time Financing Sources:						
Fund Transfers	0.0	-100.0%	(100,000.0)	0.0	N/A	0.0
Tax Amnesty	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	-100.0%	(100,000.0)	0.0	N/A	0.0
Subtotal - Revenues	**9,754,620.2**	**2.7%**	**257,693.0**	**10,150,204.0**	**4.1%**	**395,583.9**
Balance Forward	0.0	-100.0%	(499,325.5)	0.0	N/A	0.0
Total - Resources	**9,754,620.2**	**-2.4%**	**(241,632.5)**	**10,150,204.0**	**4.1%**	**395,583.9**

3/ Adjusting for the $(97.8) million in tax law changes in FY 2017, the base FY 2018 increase is 4.6%.
4/ Adjusting for the $(90.4) million in tax law changes in FY 2018, the base FY 2019 increase is 4.6%.